

**REPORT OF
FINANCIAL EXAMINATION**

ST. JOHNS MUTUAL INSURANCE COMPANY

**AS OF
December 31, 2003**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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June 18, 2004
Washington, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a financial examination has been made of the records, affairs and financial condition of the

St. Johns Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 113 Elm Street, Washington, Missouri 63090, telephone number (636) 239-6047. This examination began June 14, 2004 and concluded June 18, 2004.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 1999, for the year ending December 31, 1998. The current examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments - Previous Examination Report

The general comments and recommendations taken from the previous examination report and the subsequent action taken by the Company are described below.

1. Comment/Recommendation: “The Company should revise agents’ contracts to require agents to obtain Errors and Omissions coverage.”

Company Response: The Company agreed to implement this recommendation.

Current Findings: The agents’ contracts have been revised to include a provision requiring Errors and Omissions coverage.

2. Comment/Recommendation: “The Board should amend the Articles of Incorporation to establish eight (8) as the minimum number of members required to constitute a quorum at membership meetings to comply with Section (2) of RSMo 380.381.”

Company Response: The Company agreed to implement this recommendation.

Current Findings: The Articles of Incorporation were amended in 1999 to include this provision.

HISTORY

General

St. Johns Mutual Insurance Company was originally organized in June, 1895 as Farmers Mutual Fire Insurance Company of St. Johns. Since its initial organization the Company's name has changed five times. On July 1, 1949 the Company was granted a charter of incorporation by the Secretary of State.

On May 30, 1981 the Company merged with Farmers Mutual Insurance Company of Jeffriesburg, with the surviving company's name being St. Johns Jeffriesburg Mutual Insurance Company. In February, 1985 the Company amended its Articles of Incorporation and was issued a Certificate of Authority by the Missouri Department of Insurance. Effective January 1, 2004 the Company merged with Farmers Mutual Insurance Company of Jefferson County and Missouri River Mutual Insurance Company with St. Johns Mutual Insurance Company being the surviving company. After the merger the new entity is named United Mutual Insurance Company. The Company operates under sections 380.201 through 380.611 RSMo, which governs Extended Missouri Mutual Insurance companies.

Management and Control

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Saturday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of twenty five percent of the members. Eight members are required to constitute a quorum.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine directors serving three year terms. All

directors must be policyholders of the Company. The Directors generally meet monthly and are compensated \$50 per each attended meeting.

Members serving on the Board of Directors as of December 31, 2003 were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
James Deppe 6930 Bluff Rd Washington, MO 63090	Farmer	2001-2004
James Geisert 4901 East Old Hwy 100 Washington, MO 63090	Retired Farmer	2003-2006
Glennon Gildehaus 100 Echo Ln Washington, MO 63090	Contractor	2003-2006
Pierce Glass 3675 Westwood Dr. Pacific, MO 63069	Retired	2003-2006
Edward Heisel 1776 Highway T Labadie, MO 63055	Farmer	2001-2004
William Juedemann 4172 Sunny Rd. New Haven, MO 63068	Assistant Principal	2002-2005
Walter Luther 1702 Schroeder Dr. Washington, MO 63090	GM-Chamber of Commerce	2001-2004
Dale Winters 10276 Hwy YY New Haven, MO 63068	CPA	2002-2005
Gael Wood 1500 Dogwood Terrace Washington, MO 63090	Judge	2002-2005

At the annual membership meeting, the Board of Directors elects the following officers for

a one-year term: President, Vice-President, Treasurer and Secretary.

Officers of the Company serving at December 31, 2003 were:

William Juedemann	President
James Geisert	Vice-President
Walter Luther	Treasurer
James Deppe	Secretary

Conflict of Interest

The Company requires conflict of interest statements for the disclosure of material conflicts of interest or affiliations from its directors. A review of the statements for the years under examination indicated no material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles and Bylaws were amended three times since the last examination. Article VI was amended in 1999 to require eight members to constitute a quorum. This revision was made in response to a comment in the previous examination. Both the Articles and the Bylaws were revised in 2001 to reflect the Company's change from assessable to non-assessable. Both the Articles and the Bylaws were revised again in 2004 to reflect the merger and name change to United Mutual Insurance Company. The minutes of the Membership and the Board of Directors' meetings were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. The examination report as of December 31, 1998, was reviewed and accepted by the Company's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company is the named insured on a bond with Farmers Alliance Mutual Insurance Company. The policy has a liability limit of \$50,000. The NAIC suggested minimum fidelity bond for the merged Company is \$75,000. The Company should increase its fidelity bond to at least \$75,000, the minimum NAIC suggested amount for a company of its size.

The Company is the named insured on a Directors and Officers liability policy with MAMIC Mutual Insurance Company. The aggregate limit of liability is \$750,000 each policy year. The policy includes the following retention: \$500 each director or officer each loss; \$2500 aggregate each loss as respects directors and officers liability; \$5,000 aggregate each loss as respects company reimbursement.

The Company is the named insured on a property policy issued by the Company, to cover the home office building for \$120,000 and its personal property with coverage of \$26,000.

The Company has a Commercial General Liability policy with Grinnell Mutual Reinsurance Company. This policy has the following limits of insurance: \$2,000,000 general aggregate limit, \$1,000,000 personal and advertising injury limit, \$1,000,000 each occurrence limit, \$100,000 fire damage legal liability limit and \$5,000 medical expense limit.

The Company is the named insured on a Workers Compensation and Employers Liability Policy with Travelers Property Casualty Company. The Workers Compensation Insurance applies to the laws of the State of Missouri. The Employers Liability Insurance provides the following coverage: \$100,000 each accident for bodily injury; \$500,000 policy limit for bodily injury by disease; \$100,000 each employee for bodily injury by disease.

EMPLOYEES' BENEFIT PLAN

The Company currently has four employees: Manager (full-time), Adjuster/Inspector (full-time), Administrative Assistant (full-time) and Secretary (part-time). Salaries and appointment of employees are determined by the Board of Directors. Employees receive paid vacation, sick leave and funeral leave. The Company has an IRA plan for its employees. Employees are reimbursed for business expenses. No health insurance benefits are currently provided.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Part II Farm Mutual). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri.

The Company's policies are sold by fifteen licensed agents/agencies who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS (American Association of Insurance Services) policy forms supplied by the Missouri Association of Mutual Insurance Companies for policies (except farm liability) written directly by the Company. The AAIS forms have been approved by the Missouri Department of Insurance. Farm liability policies are written on forms supplied by Grinnell Mutual Reinsurance Company. Grinnell forms have been approved by the Missouri Department of Insurance. All policies are written for a one year term. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

The Company has a full time Inspector/Adjustor who performs property inspections and most claims adjusting procedures. An independent adjustor may be retained for more complicated claim settlements/investigations.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

YEAR	1999	2000	2001	2002	2003
Admitted Assets	1,776,866	1,682,788	1,645,918	1,775,042	1,581,775
Liabilities	141,870	176,321	370,377	484,138	508,548
Gross Assessments	822,102	846,421	884,170	998,662	1,188,329
Losses Incurred	400,810	525,002	301,250	384,856	745,593
Investment Income	98,786	102,478	77,370	72,555	63,494
Underwriting Income	(112,680)	(224,507)	5,308	(93,913)	(325,527)
Net Income	(14,876)	(128,529)	100,131	15,363	(217,677)

At year end 2003, 2,170 policies were in force.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has a single reinsurance contract, an aggregate excess reinsurance agreement with Grinnell Mutual Reinsurance Company of Grinnell, Iowa. The following is a description of each section of coverage provided by this agreement.

Aggregate Excess Reinsurance. The Reinsurer retains 100% of the liability in regards to aggregate net losses which exceed the retention limit (or attachment point). The attachment point for the 2004 contract year is \$905,091.

Facultative Reinsurance. Within thirty days of insuring any specific risk, the Company has the option of ceding all or part of such risk to the Reinsurer.

Earthquake Reinsurance. The company cedes 100% of the liability related to earthquake coverage to Grinnell Mutual.

Liability Reinsurance. The Company cedes 100% of its personal liability coverage to the Reinsurer.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's accountant, Tochtrop and Associates, P.C., prepares the Company's Statutory Annual Statement, audits the Company on an annual basis and prepares federal income tax and payroll tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to their respective totals is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	\$1,139,179
Stocks	0
Real Estate	104,216
Cash on Deposit	273,026
Reinsurance Recoverable on Unpaid Losses	17,577
Interest Due and Accrued	13,782
E/O-D/O Reserve Account	27,280
Furniture and Equipment	6,615
Petty Cash	<u>100</u>
Total Assets	<u>\$1,581,775</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$17,577
Ceded Reinsurance Payable	17,504
Unearned Premium	467,266
Accounts Payable	5,451
Income Tax Payable	<u>750</u>
Total Liabilities	<u>\$508,548</u>
Guaranty Fund	\$673,720
Other Surplus	<u>399,507</u>
Total Policyholder Surplus	<u>\$1,073,227</u>
Total Liabilities and Policyholder Surplus	<u>\$1,581,775</u>

STATEMENT OF INCOME

Net Assessment/Premium Income	\$913,912
Reinsurance Commission	3,954
<i>Less: Net Losses</i>	745,593
<i>Less: Underwriting Expenses</i>	<u>497,800</u>
Underwriting Income	(\$325,527)
Net Investment Income	61,492
Other Income	<u>51,908</u>
Gross Profit or (Loss)	(212,127)
<i>Less: Federal Income Tax</i>	<u>5,550</u>
Net Profit or (Loss)	<u><u>(\$217,677)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2002	\$1,290,904
Net Income (reported by the Company)	(217,677)
Examination Changes (Net)	<u>0</u>
Policyholders' Surplus, December 31, 2003	<u><u>\$1,073,227</u></u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance

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The Company should increase its fidelity bond to at least \$75,000, the minimum suggested for a company its size in the guidelines promulgated by the NAIC.

Real Estate

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The Company must request approval for its office building from the Missouri Department of Insurance to comply with Section 380.471 RSMo. This statute enumerates the investments available to Extended Missouri Mutual Insurance Companies and requires approval from the Director for any other investments.

SUBSEQUENT EVENTS

Effective January 1, 2004 the Company merged with Farmers Mutual Insurance Company of Jefferson County and Missouri River Mutual Insurance Company with St. Johns Mutual Insurance Company being the surviving company. The new entity is known as United Mutual Insurance Company after the merger.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors and officers of St. Johns Mutual Insurance Company in the course of this examination are hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe
Audit Manager - St. Louis
Missouri Department of Insurance